

MONEY

Medium Of Exchange Or Debt?



by Alexander Baron



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Money Need Not Be Debt

In his iconoclastic survey of contemporary global events *Tragedy And Hope*, the distinguished historian Professor Quigley writes that "money and goods are not the same thing but are, on the contrary, exactly opposite things. Most confusion in economic thinking arises from failure to recognize this fact. Goods are wealth which you have, while money is a *claim on wealth* which you do not have. Thus goods are an asset; money is a debt. If goods are wealth; money is not-wealth, or negative wealth, or even anti-wealth...They always behave in opposite ways, just as they usually move in opposite directions." (1)

The concept of not-wealth or negative wealth is silly, and is just the sort of twaddle we have come to expect from mainstream economists and from the often well-meaning politicians who parrot their prattlings. Be that as it may, this is the prevailing view of money and has been since the establishment of central banking systems, which in Britain began in 1694 with the misnamed Bank of England. I say misnamed because the Bank of England was - and remains, in spite of its nominal nationalisation - a private bank.

Prevailing view or not, this silly concept of money is demonstrably false, because although money and debt have gone hand in hand since time immemorial and debt in fact predates money, (2) the concept of money as debt presupposes the ridiculous notion that wealth cannot be created except as a debt.

Not all economists and researchers accept this fallacy. When the current writer interviewed author Eustace Mullins in 1993 he hit the nail bang on the head: "whenever you have a Central Bank you'll have a National Debt; that's what a Central Bank's created for. When the Bank of England started operation in 1694, you started to have a National Debt soon after that, and then there was war finance, they financed wars and built up a healthy debt to the Bank, and you've been [struggling] under that load ever since." (3)

Money is, or should be, a medium of exchange and a store of value, and nothing else.

The only valid purpose of the financial system should be to distribute the goods and services the community creates and can supply, both now and in the future. (4)

If one accepts this axiom, then all other financial truths must flow from it, and all financial fallacies must be exposed.

Money is too often used for other, sinister, and at times outright nefarious, purposes. It is used for example as a method of social control. The taxation system in particular is used to regulate and even to punish people for what our masters consider to be anti-social behaviour; there is an element of this in the duties on alcohol and tobacco.

What Is Inflation?

There are many fallacies connected with the concept of money; one of these is that of inflation. There are basically three ways the government can raise money: it can borrow the money; it can tax it; or it can create it, either by printing notes, by minting coins or simply by writing down credit as a book entry. (5)

The government is forever needing to raise money to pay for all manner of public services, whether desirable or not. How should it raise money? Which of the three ways mentioned above is the most efficient, and is it always so?

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If the government borrows money it has to repay it at some point, and as it borrows money at interest, whatever loans it takes out today must be repaid at a later date, principal and interest. Obviously this method of itself would be insufficient.

If the government raises money by taxation it decreases purchasing power, for the obvious reason that whatever money private citizens or corporations hand over to the government, they don't have to spend themselves. The taxation system is also expensive to administer. First and foremost the taxman must be paid; there are all manner of laws to be drafted, forms to be filled out, and so on. Taxation is an inefficient - and rightly unpopular - method of raising money.

This leaves printing, coining, and creating credit. Coining money is relatively inexpensive; printing it is even less expensive; creating credit costs nothing. Think about it: how much would it cost the government to raise a billion pounds by the various methods outlined above?

Collecting an extra billion would require legislation, government accountants, etc, and would reduce consumer purchasing power accordingly.

Coining a billion would require the cost of the metal and the overheads.

Printing it, ditto.

But creating a billion pounds credit could be done by the Chancellor with a stroke of the pen and would cost precisely nothing. So why doesn't the government do this anytime and every time it needs money?

The stock reply is: this would cause inflation.

Ask anyone - any economist - what inflation actually means and he will usually reply either a general increase in the money supply or too much money chasing too few goods. Hands up all those who have too much money?

This is complete and utter nonsense of course, because the money supply *must* increase if an increasing supply of goods and services is to be provided. If that were not the case there would still be the same amount of money circulating in Britain and indeed in the world today as there was at the turn of the century, in 1066, in Biblical times...Clearly this is not so, and you don't have to consult *Whitaker's Almanack* or any set of government or Bank of England financial statistics to realise that.

The money supply increases constantly, and indeed it must increase. Inflation, a general rise in prices, is not caused by "too much money chasing too few goods" or by any means of credit creation. Inflation is caused by an increase in the money supply *out of all proportion* to the goods and services in circulation.

Suppose the Chancellor came to you tomorrow and said: "I'm going to make you a rich man: here's a cheque for a million pounds drawn on the Bank of England, printed especially for you". Would that cause inflation? Not so's you'd notice, indeed, it would make you a happy man for the rest of your life if you invested it wisely. But what if instead the Chancellor were to give every man, woman and child in the country an instant credit for a million pounds? Now that surely would cause inflation, indeed it would make Harold Wilson's proverbial pound in your pocket fall towards zero. This is what happened in Weimar Germany during the so-called hyper-inflation, and what has happened to lesser degrees in very many countries ever since.

From this it follows that the money pumped into circulation should be proportional to the goods and services the community demands. If far too much money is created, then obviously a hyper-inflation will result. If on the other hand not enough is created, there will be deflation, many people - always the poor! - will be short of money, and the economy will wind down. In extreme cases there will be a slump. The problem is to create just the right amount of credit, debt-free and interest-free, so that the economy will flourish and that money maintains or even increases its value.

Who Has Too Much Money?

As stated, too much money chasing too few goods is a fallacy; the current writer has never met anyone who has admitted to having too much money - and if he did he could solve that problem forthwith by giving it away. Indeed, the main problem for the great mass of ordinary working people, pensioners, the underclass, and all manner of government departments and voluntary organisations etc, is not that they have too much money but that they have too little. How many times have you heard that a hospital has to close down beds, or delay or cancel operations because it doesn't have enough money? Or that cuts must be made in public services: libraries, nurseries, schools, and so on? Yet there is one thing the government can always raise money for: war.

Where Does The Money Come From To Fight Wars?

During the Second World War the British Government operated a "cheap money policy"; World War II was fought at 3%. As one commentator put it: "if a Chancellor could weather the greatest of all wars at 3%, why do we now have a 12% peace?" (6) Other authors have been puzzled by the same phenomenon. For example, in *Great American Ripoff*, an American fellow traveller asks why, in the 1980s, should blue chip American corporations pay 22% for a loan when a second century merchant paid 8-9%? (7) Why indeed?

The reality is that neither money nor the lack of it is ever any object to waging a war. Professor Quigley again: "Wars, as events have proved since, are not fought with gold or even with money, but by the proper organization of real resources...The outbreak of war on August 4, 1914, found the British banking system insolvent in the sense that its funds, created by the banking system for profit and rented out to the economic system to permit it to operate, could not be...liquidated rapidly. Accordingly, the bankers secretly devised a scheme by which their obligations could be met by fiat money...but, as soon as that crisis was over, they then insisted that the government must pay for the war without recourse to fiat money...but by taxation and by borrowing at high interest rates from bankers." (8)

This illustrates the nature of the con trick. As Major Douglas and his followers maintain, the problem of finance is basically an engineering one; anything that is physically possible should be financially possible rather than vice versa, as under the current financial regime. It is only during wartime that this madness is temporarily suspended. Professor Quigley has let the cat out of the bag: during the First World War the bankers devised a scheme to allow the banking system to churn out as much credit as was necessary, but after the War the rules were changed. (9)

The Biggest Con Trick In History Is Now No Longer A Secret

"I am afraid the ordinary citizen will not like to be told that the banks can, and do, create money...And they who control the credit of the nation direct the policy of Governments and hold in the hollow of their hands the destiny of the people."

These words - often quoted by financial reformers and conspiracy theorists - were spoken by Reginald McKenna, former Chancellor of the Exchequer and then chairman of the board of Midland Bank: (10)

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A few years ago the claim that banks created money would have been dismissed by the man in the street; it was discussed only in specialist financial texts, and known only by Mr McKenna and his ilk. (11) The secret is though a secret no more, and in fact Major Douglas himself provided a simple mathematical proof as long ago as 1924.

Let Deposits = D

Let Loans, etc. = L

Let Cash in Hand = C

Let Capital = K

Therefore Assets = L + C

and Liabilities = D + K

Therefore $L + C = D + K$

Assuming Capital to be fixed and differentiating with respect to time we have:

$$dL/dt + dC/dt = dD/dt$$

"which means, of course, that the rate of increase, or decrease, of loans is equal to the rate of increase, or decrease, of deposits." (12)

As with all the other great "secrets" of history, the problem is not to expose it, but to publicise it in such a manner that those to whom such knowledge is vital are able to evaluate and interpret it accurately. (13)

What If Money Continues To Be Created As A Debt?

The obvious answer to this question is that the world will go progressively in hoc to the financial system. Indeed it is the financial system to which the vast majority of all the world's debts is owed; this is something which our media pundits and probably most of our overpaid economists don't seem to realise. We are forever hearing about how this nation or that is in debt; we are told that "Third World" countries owe enormous debts to the West, yet at the same time we are told that the government itself has to balance its budget. This is the same whether we are talking about the British Government, the American Government, or the Japanese Government. It never seems to occur to these stupid people that for every debit there is a credit. If an individual owes a thousand pounds, a company owes a million francs, or a government owes a billion dollars, then somebody or some institution is owed the same amount. Debits are always exactly equal (and opposite) to credits.

In reality, the issue is not quite that simple: some debts are written off, and others rolled over. For example, in March 1998, it was announced that America's President Clinton had cancelled \$1.6 billion worth of American debt against unspecified African countries. (14) Obviously it can be done, and although this write-off will probably benefit these countries only in some minuscule way, it doesn't appear that anyone or any institution has suffered in the slightest owing to Clinton's magnanimous gesture. \$1.6 billion is written off, simply disappears down some black hole, and nobody notices. Yet as I write these words, firemen in Essex are striking because the local authority is seeking to make cuts totalling a mere half a million pounds in its fire-fighting budget, and we are constantly being told that there is no money for this, no money for that. Surely somebody other than the fellow travellers of Major Douglas, the Christian Council for Monetary Justice and the Islamic Party of Britain must realise how ludicrous this is?

The Real Solution

The real solution to the money problem is blindingly simple and has been expounded both by Douglas and by many of his contemporaries. The Duke of Bedford, that rarest of creatures, a nobleman with the common touch, was a pacifist and an ardent advocate of financial reform. (15) Though dismissed by many as a crank, (16) his arguments were as irrefutable as his sincerity and commitment were unquestionable.

In his 1944 pamphlet *The Neglected Issue*, he concludes that "neither in peace nor in war is there any reason why the Government should rely, FOR REVENUE, either on taxation or on borrowing from the banking system sums of newly-created money in a manner which involves fresh burdens of interest for the taxpayer and further additions to the National Debt.

The Government can, and should, direct the banking system to create the money needed for its services and it should use taxation only as a means of collecting, for destruction, surplus money for the prevention of inflation." (17)

Thirty-five years later, a pamphlet issued by the Economic Research Council reached much the same conclusion, namely that "the power to create credit should be regulated by the Treasury, but that the executive power should rest with the Bank of England [and] that the Bank of England issues its own credits, using the Treasury credits as backing." (18)

The same publication quotes from a U.S. Senate document which advocates the very same means of government finance, a document written by Abraham Lincoln! (19)

Irrelevance Of The Left

In 1992, the Socialist Party of Great Britain published a short pamphlet on the money issue in which it ridiculed what it referred to as the "mystical" theory of money. (20) Its anonymous author(s) state point blank that "The banks do not create anything. Bank deposits are not assets the banks possess but merely a record of what they owe to depositors." (21) They even adduce citations in support of this claim, (22) but as my geography teacher once told me, you can't argue with mathematics. (23) The reader is referred to the equation given by Major Douglas, above.

Is this stupidity on the part of the Socialist Party of Great Britain? Is it sloppy research? Or is it something else? It can only be something else. As long ago as 1903, an American socialist magazine published an attack on usury which demonstrated clearly that at that time many of socialism's leading theoreticians understood the principle of credit creation very well, as the following quote demonstrates clearly:

"We insist through the device of usury that wealth, as represented by capital, shall have power to multiply itself - that one hundred plus nothing shall amount to one hundred and four, one hundred and six, or one hundred and ten. Rockefeller insists that one hundred plus nothing shall amount to one hundred and forty-five. Thus is labor exploited.

Usury is a form of injustice arbitrarily imposed by the strong on the weak in the same manner as was human slavery." (24)

There is much more here in the same vein; the author of this article and his fellow travellers recognised clearly not only that usury is immoral, but that it creates credit *ex nihilo* and that it transfers wealth from the have-nots to the haves. How is it then that at the beginning of the century leading socialists understood the mechanism of usury very well while at the turn of the century the very same people not only profess that usury does not create credit *ex nihilo* but ridicule the very suggestion and totally ignore the mathematical proof that it does?

The reality is that on very many subjects, particularly the political, reason is ruthlessly subjugated to ideology. In the last two paragraphs of their pamphlet the Socialist Party of Great Britain's anonymous authors proclaim that: "In socialist society 'commodity production' will cease. Goods will be produced directly and solely for consumption. There will be no capitalist class, working class, no rent, interest and profit, no wages and no prices...All members of socialist society will have free access to what is produced." (25)

This is of course the politics and "economics" of Cloud Cuckooland, although until the disintegration of the Soviet Union it was gospel to a considerable percentage of mankind. We need not dwell on such nonsense here, and it goes without saying that people who espouse this sort of claptrap have nothing meaningful to offer the movement for financial reform. In any case, most followers of Trotsky, Stalin, (26) Lenin, Marx and company, are not the slightest bit interested either in financial reform or in the elimination of poverty, but in perpetuating their insane class war and all the related dogmas, hatreds and their phoney struggles against all the "isms" which capitalist society is somehow supposed to produce. (27)

The Way Forward?

What then is the way forward? In the first instance, a simple change in the financing of public works is all that would be needed. It is too much to ask for full-blown Social Credit proposals, but the government already creates a certain amount of money debt-free and interest-free by way of the coin and note issues. And by his cancelling \$1.6 billion worth of African debt in the Spring of 1998, Bill Clinton effectively spent that entire sum into circulation debt-free. So it can be done. Financial reformers, in particular the Christian Council for Monetary Justice, the Islamic Party of Britain, and the increasingly aware "green movement", must continue to press for financial reform and to lobby MPs on both sides of the House, and their increasingly receptive audience in the House of Lords.

The reform of the financial system is by far the most serious problem facing mankind as we approach the 21st Century. All mankind. It has often been said that the love of money is the root of all evil; though this is an obvious exaggeration, most of the evils of the modern world, in particular poverty and all the symptoms and maladies which accompany it, would be reduced considerably if not eliminated altogether if money were no longer to be issued as a debt, specifically if the state were to issue its own credit not against bearer bonds that were to be serviced in perpetuity, but against the real wealth of the community: the goods and services it can provide not as a debt, but as a credit. Which is what real wealth really is.

Notes And References

- (1) *TRAGEDY AND HOPE: A History of THE WORLD in Our Time*, by Carroll Quigley, Second Printing, Angriff Press, Los Angeles, (1974), page 44.
- (2) Credit antedated coins and probably money itself, [*A History of INTEREST RATES*, by Sidney Homer, Second Printing published by Rutgers University Press, New Brunswick, (1963), page 3].
- (3) Author's interview with Eustace Mullins at the Global Deception Conference, Wembley, London, January 1993.
- (4) Ie to act as a store of value.
- (5) Nowadays, a book entry would be a computer blip, which is what most money consists of anyway.

- (6) From *THE ABSURDITY OF THE NATIONAL DEBT*, an undated leaflet reprinted from the Social Credit journal *Abundance*, (date and issue not known).
- (7) *The Great American Ripoff: "An Indictment of the Federal Reserve Board"*, by F.W. Maisel, published by Condido Press, (1983), page 146.
- (8) Quigley, *Tragedy And Hope*, page 316, (op cit).
- (9) Quigley has let the cat out of the bag in more ways than one; this great book is a perennial favourite of conspiracy theorists; the first edition disappeared quietly from the shelves but it was seized upon and reprinted by a small far right American publishing house in 1974.
- (10) Quigley, *Tragedy And Hope*, page 325, (op cit).
- (11) Indeed, around 1981 when I told my own bank manager that was the case he laughed at me, and when I produced documentation to that effect he dismissed it as "this bloody load of rubbish".
- (12) *SOCIAL CREDIT*, by C.H. Douglas, 5th Edition, published by The Institute of Economic Democracy, Vancouver, (1979), page 87.
- (13) See for example Professor Quigley's comments on this on page 919 of *Tragedy And Hope*, (op cit).
- (14) Radio 5 broadcast heard by the author, Sunday March 29, 1998.
- (15) The 12th Duke of Bedford was a prolific pamphleteer; among his many works was the 1947 pamphlet *THE ABSURDITY OF THE NATIONAL DEBT* on which the *Abundance* reprint was based, (see note 6). He was killed in a shooting accident in October 1953.
- (16) See for example his obituary, which appeared in the *Times* on October 12, 1953, and more recently *THE 43 GROUP*, by (the odious) Morris Beckman, published by Centerprise Publications, Second Edition, (1993), page 216.
- (17) *The Neglected Issue: Some Essays on The Need for Monetary Reform*, by The Duke of Bedford, published by The Strickland Press, Glasgow, (1944), page 14.
- (18) *GOVERNMENT DEBT AND CREDIT CREATION A study of the cration of credit & its effect on the British Economy*, Research Report No. 9, published by the Economic Research Council, London, (December 1981), pages 37-8.
- (19) *GOVERNMENT DEBT AND CREDIT CREATION*, page 3, (ibid).
- (20) *QUESTIONS OF THE DAY No: 1. INFLATION: ITS CAUSE AND EFFECTS*, author(s) uncredited, published by The Socialist Party of Great Britain, London, (April 1992 reprint).
- (21) *INFLATION: ITS CAUSE AND EFFECTS*, page 4 [unnumbered], (ibid).
- (22) One of these is the 1927 book *An Economist's Protest*, by Edwin Cannan. I've checked this out. It's garbage.
- (23) I remember him very well; he was fond of saying that you could waffle your way through a history exam without knowing a single date, but that with mathematics either you knew the answer or you didn't.
- (24) *The Economics of Socialism and the Economics of Capitalism*, by Charles C. Hitchcock, published in *THE INTERNATIONAL SOCIALIST REVIEW*, VOL. III., APRIL, 1903, NO. 10., pages 581-6. This quote is taken from pages 582-3.
- (25) *INFLATION: ITS CAUSE AND EFFECTS*, page 8, (op cit).
- (26) Believe it or not, there are still some "socialists" who worship Stalin.
- (27) In particular: *racism*, *sexism*, "fascism", and lately *heterosexism*, *disabilitism*, etc and ad nauseum.

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